The One Hundred and Twenty-first

ANNUAL REPORT

of

THE BOARD OF DIRECTORS

of

The Canada Life Assurance Company

January 25th, 1968

HEAD OFFICE - TORONTO, CANADA

Board of Directors

A. H. LEMMON
President

GRAHAM F. TOWERS, C.M.G., LL.D., D.C.L.
Chairman of the Board

E. C. GILL, LL.D., F.S.A., F.C.I.A.
Vice-Chairman of the Board

J. GORDON BEATTY, M.C., F.I.A., F.S.A., F.C.I.A.
Vice-President

JOHN L. McCARTHY
Vice-President

A. C. ASHFORTH
Former President
The Toronto-Dominion Bank

E. JACQUES COURTOIS, Q.C.
Smith, Davis, Anglin,
Laing, Weldon & Courtois
Montreal

NATHANAEL V. DAVIS
President
Alcan Aluminium Limited
Montreal

T. S. DUNCANSON
Director
Moore Corporation, Limited

RAYMOND DUPUIS, Q.C., LL.D.
Advocate and Company Director
Montreal

THE HONOURABLE
LESLIE M. FROST
P.C., Q.C., LL.D., D.C.L.
Lindsay, Ontario

J. ROY GORDON, LL.D.
Chairman Executive Committee
The International Nickel Company
of Canada, Limited
New York

J. G. HUNGERFORD, Q.C.
Chairman
National Trust Company Limited

J. D. LEITCH
President
Upper Lakes Shipping Ltd.

NEIL J. McKINNON, LL.D.
Chairman
Canadian Imperial Bank of Commerce

F. WILLIAM NICKS, D.C.L.
Chairman of the Board and President
The Bank of Nova Scotia

ELLMORE C. PATTERSON
Chairman of the Executive Committee
Morgan Guaranty Trust
Company of New York
New York

W. K. WHITEFORD, LL.D.
Director
Gulf Oil Corporation
Pittsburgh

Management Vice-Presidents

W. J. ADAMS, F.S.A., F.C.I.A.
Vice-President and Secretary

E. H. CRAWFORD
Vice-President and Treasurer

D. M. ELLIS, F.S.A., F.C.I.A.
Vice-President and Senior Actuary

J. S. HARRIS
Vice-President and Director of Agencies

The Report

Your Directors have pleasure in submitting the 121st annual report including the financial statement for the year ended December 31, 1967.

New business placed by our agency organization during the year totalled $802,969,000 consisting of $700,938,000 of life insurance and $102,031,000 of annuities.

Business in force totals $7,928,799,000 excluding reinsurance ceded to other companies. This amount includes $6,936,527,000 of life insurance and $992,272,000 of annuities.

The total income of the Company for the year from all sources was $183,939,000 after deducting $19,998,000 premium reductions (policy dividends) allotted.

Payments to policyholders and beneficiaries totalled $91,704,000.

The Company's assets have been carefully valued and, after making ample appropriations, their total is $1,127,832,000.

Liabilities arising from insurance and annuity contracts amount to $1,015,371,000 including $26,407,000 premium reductions (policy dividends) to be allowed to policyholders in 1968 and subsequent years.

Surplus and reserve funds total $78,240,000 of which $1,208,000 is a health insurance contingency reserve, $22,500,000 is a general contingency reserve and $54,532,000 is unassigned surplus.

The Directors express their warm thanks to all members of the Company's organization who have contributed to the excellent results of the year.

On behalf of the Board,

GRAHAM F. TOWERS
Chairman of the Board

A. H. LEMMON
President

Toronto, January 17, 1968.

STATEMENT OF ASSETS AND LIABILITIES

AT DECEMBER 31, 1967

ASSETS

		1967	1966
Bonds:			
Government	$128,263,000		
Municipal	56,819,000		
Public utility	37,247,000		
Other corporation	190,496,000	$412,825,000	$404,686,000
Mortgage loans		454,579,000	442,372,000
Stocks:			
Preferred	$ 18,665,000		
Banks and trust companies	12,844,000		
Other common	57,220,000	88,729,000	78,899,000
Properties held for investment		34,098,000	32,885,000
Loans on policies		82,541,000	75,412,000
Office premises		6,446,000	6,087,000
Cash		4,867,000	1,685,000
Premiums in course of collection		7,778,000	8,276,000
Interest and rents accrued, including $713,000 due in 1967 ($368,000 in 1966)		11,205,000	10,886,000
Other assets		4,400,000	4,028,000
		$1,107,468,000	$1,065,216,000
Segregated annuity funds		20,364,000	10,866,000
		$1,127,832,000	$1,076,082,000

LIABILITIES AND SURPLUS

	1967	1966
Amount required, in addition to future premiums and interest, to provide for payments guaranteed under insurance and annuity contracts	$913,686,000*	$875,519,000
Benefits in course of payment and provision for unreported claims	14,777,000	13,732,000
Amounts left on deposit with the Company	60,501,000	56,739,000
Premium reductions (policy dividends) to be allowed in 1968 and subsequent years	26,407,000	25,223,000
Short-term borrowings (to take advantage of investment opportunities)	—	5,580,000
Miscellaneous liabilities (including amounts in suspense and provision for accrued taxes and outstanding expenses)	13,857,000	17,032,000
Health insurance contingency reserve	1,208,000*	—
General contingency reserve	22,500,000	21,000,000
Unassigned surplus	54,532,000	50,391,000
	$1,107,468,000	$1,065,216,000
Segregated annuity funds	20,364,000	10,866,000
	$1,127,832,000	$1,076,082,000

The values at which the bonds and stocks are shown are amortized cost or less, except for assets held for variable contracts which are valued at market. The valuations of these securities prescribed by the insurance law of Canada, in total, are greater than the book values converted at corresponding rates of exchange.

At December 31, 1967 assets included above held in trust in the United States for the protection of United States policyholders totalled more than $211,000,000 which exceeded the net liabilities to United States policyholders at that date.

Throughout these statements, United States currency is included at the rate of $1.00 Canadian to the U.S. dollar. Sterling is included in the revenue statement at $2.80 Canadian to the pound (unchanged from 1966), but in the statement of assets and liabilities is included at $2.60 to the pound ($2.80 used in 1966). As a result of the change in rate, the Canadian dollar equivalents of assets and liabilities in sterling were both reduced by approximately $10,400,000. If current rates of exchange had been used in the statement of assets and liabilities at December 31, 1967, rather than the bookkeeping rates referred to, the surplus as shown would have been increased.

*The health insurance contingency reserve previously included with policy reserves, the first item under liabilities, has been shown as a separate item at December 31, 1967.

REVENUE STATEMENT FOR 1967

WE RECEIVED

	1967	1966
Gross premiums for insurances and annuities	$140,769,000	$134,070,000
Less premium reductions (policy dividends) allotted	19,998,000	19,128,000
Net premiums	$120,771,000	$114,942,000
Interest, dividends and rents, after deducting $3,737,000 in 1967 and $3,610,000 in 1966 for expenses and taxes on investments	60,896,000	57,320,000
Profits on sale of assets and recovery of amounts previously written off	2,272,000	785,000
	$183,939,000	$173,047,000

WE PAID OR SET ASIDE FOR FUTURE PAYMENT

		1967	1966
To policyholders and beneficiaries:			
Death benefits	$30,642,000		
Disability benefits	10,124,000		
Matured endowments	8,055,000		
Annuities	12,960,000		
Cash surrender options	29,923,000	$91,704,000	$87,495,000
Interest on amounts left on deposit with the Company and on short-term borrowings		3,630,000	2,963,000
The increase in funds required for future payments guaranteed under insurance and annuity contracts		47,647,000*	41,099,000
Transfer to trustees of British Isles Division staff pension fund		—	2,876,000
Expenses of administration, sales and service (excluding investment expenses)		27,313,000	26,438,000
Taxes (excluding investment taxes)		3,900,000	3,215,000
Amount written off assets		2,896,000	3,411,000
Health insurance contingency reserve transferred from policy reserves		1,208,000*	—
Addition to general contingency reserve		1,500,000	1,500,000
Addition to unassigned surplus held as an additional protection for policyholders and beneficiaries		4,141,000	4,050,000
Balance at Dec. 31, 1967	$54,532,000		
Balance at Dec. 31, 1966	50,391,000		
		$183,939,000	$173,047,000

AUDITORS' REPORT TO THE POLICYHOLDERS

We have examined the statement of assets and liabilities of The Canada Life Assurance Company as at December 31, 1967 and the revenue statement and the statement of segregated annuity funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances; the amounts required to provide for payments guaranteed under insurance and annuity contracts were determined and certified by the Company's Vice-President and Senior Actuary.

Based on our examination and the certificate of the Vice-President and Senior Actuary, we report that in our opinion the accompanying statement of assets and liabilities and the related revenue statement and the statement of segregated annuity funds present fairly the financial position of the Company as at December 31, 1967 and the results of its operations for the year ended on that date.

Toronto, Canada,
January 17, 1968.

CLARKSON, GORDON & CO.,
Chartered Accountants.

STATEMENT OF SEGREGATED ANNUITY FUNDS FOR 1967

	1967		1966	
Balance of funds at January 1		$10,866,000		$ 3,235,000
Add:				
Amounts received from policyholders	$ 9,446,000		$ 7,744,000	
Investment income	919,000		343,000	
	10,365,000		8,087,000	
Deduct:				
Amounts transferred to fixed benefits contracts	213,000		204,000	
Withdrawals	16,000		5,000	
Expenses and taxes	71,000		26,000	
Changes in market values of assets	567,000		221,000	
	867,000		456,000	
Increase in funds during year		9,498,000		7,631,000
Balance of funds at December 31		$20,364,000		$10,866,000

Represented by assets held at December 31 at market values:

	1967	1966
Bonds	$ 9,345,000	$ 8,849,000
Stocks	5,297,000	1,006,000
Mortgage loans	5,214,000	849,000
Cash	312,000	120,000
Interest and dividends accrued	196,000	42,000
	$20,364,000	$10,866,000

The Company has been issuing individual variable accumulation contracts since 1962; the assets of the fund established for these contracts are invested entirely in common stocks. Corporate pension fund variable contracts have been issued since 1964; these funds are invested in various types of assets as determined in consultation with the trustees of each fund.

CLARIFYING A MISUNDERSTANDING

The Royal Commission on Taxation has proposed that policyholders should be taxed on the "policy dividends" that are credited to them on participating life insurance policies. This recommendation apparently was based on the assumption that a policy dividend is similar to a dividend paid to a shareholder from the profits of a corporation.

A policy dividend is, in fact, quite different — it is a method of determining the fair premium for each policyholder from year to year.

Life insurance guarantees extend over long periods of time and premium rates must be based on assumptions of the trend of mortality, expense and interest rates for many years ahead. In mutual insurance, the premium stated in the policy is for an amount somewhat higher than it is anticipated will be necessary in the future. The actual premium required to be paid each year will vary with actual experience.

The difference between the premium stated in the policy and the actual premium paid in any year has been historically called a "dividend" — a word that has led to a misunderstanding of the true nature of these premium reductions.

This mutual method has provided great security to policyholders against the hazards of making guarantees extending over a whole lifetime. It should not be discouraged by an unrealistic tax on the part of the total premium which is not required to be paid each year.

In an attempt to make our Annual Statement more descriptive in this matter we have this year used the words "premium reductions" instead of "dividends", and their total is shown as a deduction from gross premiums instead of including it with payments to policyholders, as in previous statements.

Divisional Officers

ACTUARIAL DIVISION

J. R. Gray, F.S.A., F.C.I.A.
J. C. Maynard, F.S.A., F.C.I.A.
Senior Actuaries

G. M. Brown, F.S.A., F.C.I.A.
H. W. McCubbin, F.S.A., F.C.I.A.
Associate Actuaries

R. A. Haslegrave, F.I.A., F.C.I.A.
Assistant Actuary

W. H. Macklem, F.L.M.I.
Statements and Tax Officer

AGENCY DIVISION

Sales

J. M. Munro
Director of Agencies, Canada

P. R. Pepper, C.L.U.
Director of Agencies, United States

R. M. Vaccher, C.L.U.
Superintendent of Agencies

W. P. Hair, C.L.U.
F. A. Hale, C.L.U.
N. C. McFarland, C.L.U.
M. P. Miziolek, C.L.U.
M. R. Pike, C.L.U.
Assistant Superintendents of Agencies

Marketing

G. C. Tompkins, C.L.U.
Director of Marketing

W. M. Jacobi, C.L.U., F.L.M.I.
Agency Superintendent, Training

E. K. Dawson, C.L.U.
Quality Business Control Officer

C. P. Glover
Superintendent of Estate Service Division

C. W. J. Harper
Assistant Superintendent of Estate Service Division

J. A. Morrow
Advertising Executive

C. Acton
Assistant Agency Superintendent, Research

Administration

W. R. Armstrong
Agency Superintendent, Administration

R. H. Lyall, F.L.M.I.
Assistant Agency Superintendent, Administration

BRITISH ISLES DIVISION

D. D. Dennis, O.B.E.
Manager for U.K. and Ireland, Agency

D. C. H. Potter, F.I.A.
Manager for U.K. and Ireland, Administration

P. L. Grainge, F.I.A.
Associate Actuary

W. MacKenzie
Resident Treasurer

E. P. Roney, F.C.I.I.
Chief Underwriter

R. J. Squires, F.I.A.
Assistant Actuary

GROUP DIVISION

J. B. Walker, F.S.A., F.C.I.A.
Group Vice-President

Actuarial

H. Schermann, F.F.A., F.C.I.A.
Group Actuary

J. N. Laing, F.S.A., F.C.I.A.
H. D. Lee, F.S.A., F.C.I.A.
Associate Group Actuaries

I. A. D. Holden, F.S.A., F.C.I.A.
D. S. Williams, F.S.A., F.C.I.A.
Assistant Actuaries

D. A. Jack, F.L.M.I.
D. A. Nield, A.S.A.
Executive Assistants, Group Pensions

D. J. McCordic, F.L.M.I.
Group Underwriting Officer

J. Y. Cartmell, F.L.M.I.
Executive Assistant, Group Life and Health

Sales

F. B. Clarke
Superintendent of Group Sales

R. J. Trevelyan
Associate Superintendent of Group Sales

D. E. Barton
E. W. Sharpe
A. P. Symons
Assistant Superintendents of Group Sales

Administration

D. I. Fraser, F.L.M.I.
Group Administrative Officer

C. L. Cooper, F.L.M.I.
Executive Assistant, Group Life and Health

INVESTMENT DIVISION

Mortgages and Real Estate

M. T. Gerecke
Superintendent of Mortgage Investments

L. G. Robertson
Associate Superintendent of Mortgage Investments

F. W. C. Irwin
L. W. Matheson
Assistant Superintendents of Mortgage Investments

W. E. Sheets, B.ARCH., M.SC.
Architectural Officer

Securities

J. G. Fleming, F.L.M.I.
A. F. Lindsay
R. D. Radford, F.L.M.I.
Associate Treasurers

R. H. MacGregor, F.L.M.I.
Assistant Treasurer

D. M. Cooper, F.L.M.I.
Executive Assistant, Securities

J. G. Montgomery
Accounting Officer, Securities

NEW BUSINESS DIVISION

Medical

A. E. Parks, M.D., F.R.C.P. (C)
Medical Director

R. W. Graham, M.D., F.A.C.P.
R. S. Purkis, M.D.
W. H. Spittel, M.D.
Assistant Medical Directors

Underwriting

F. E. Rooke, F.S.A., F.C.I.A.
Underwriting Executive

F. A. Benneyworth
Underwriting Officer

J. W. Blakely
New Business Administrative Officer

SECRETARIAL DIVISION

Benefits

J. H. Wainwright
Associate Secretary and Claims Officer

Electronics and Accounting

J. D. Milne, F.S.A., F.C.I.A.
Associate Secretary and Comptroller

W. B. Waugh, F.S.A., F.C.I.A.
Data Processing Executive

G. C. Adams, F.L.M.I.
Data Processing Officer

R. G. Day, F.L.M.I.
J. L. Thomson, F.L.M.I.
Executive Assistants, Data Processing

J. E. Bond, F.L.M.I.
J. M. Goodwin
J. W. Rintoul, F.L.M.I.
Accounting Officers

Legal

T. R. Walsh, Q.C.
General Counsel

D. Norwood
Executive Assistant to the General Counsel

W. D. Shales
Assistant Secretary

J. B. Keyser
Assistant Counsel

Research

H. L. Hart
Director of Special Operations

E. B. Patton, F.L.M.I.
Executive Assistant, Special Operations

Audit

R. C. Baird, C.A.
Internal Auditor

Branches

L. D. Evans, F.L.M.I.
Branch Administrative Officer

Personnel

J. Lemon
Personnel Officer

G. H. L. Brydon, F.L.M.I.
J. G. Smalley, F.L.M.I.
Assistant Personnel Officers

Services

G. R. Maddock, F.L.M.I.
Administrator of General Services

1

NEW BUSINESS PLACED BY AGENCY ORGANIZATION

(Excluding reinsurance received)

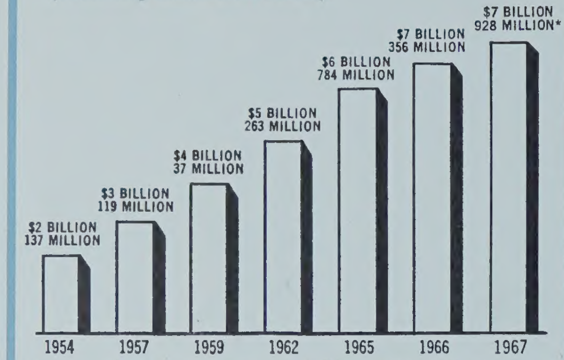
	in millions 1967	1966
Individual	**$458.9**	**$452.6**
Group	**344.0**	**329.5**
Total	**$802.9**	**$782.1**

Insurance and annuities combined

2

LIFE INSURANCE AND ANNUITIES IN FORCE

(Excluding reinsurance ceded)



*Life insurance—$6 billion, 936 million
Annuities — $992 million

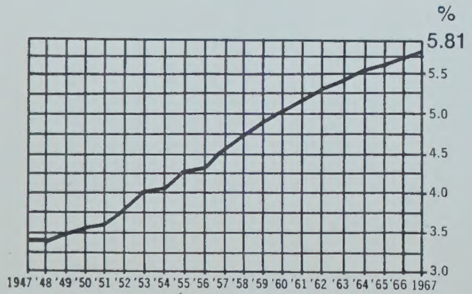
3

NET NEW PREMIUM INCOME

	in millions 1967	1966
Individual Life	**$13.5**	**$12.7**
Group Life	**1.1**	**1.6**
Annuities	**14.4**	**12.0**
Health Insurance Increases	**.6**	**1.8**
Total	**$29.6**	**$28.1**

4

NET RATE OF INTEREST EARNED 1947-1967



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PAYMENTS UNDER POLICY CONTRACTS

	in millions 1967	1966
Death and Disability Benefits	**$40.7**	**$36.4**
Endowments and Cash Values	**38.0**	**39.2**
Annuities	**13.0**	**11.9**
Total	**$91.7**	**$87.5**

6

DIVERSIFICATION OF INVESTED ASSETS

	%
Government Bonds	**11.8**
Municipal Bonds	**5.2**
Public Utility Bonds	**3.6**
Other Corporation Bonds	**17.7**
Preferred and Common Stocks	**8.5**
Mortgage Loans	**41.6**
Properties Held for Investment	**3.1**
Policy Loans	**7.4**
Miscellaneous (Office Premises, Cash etc.)	**1.1**
	100.0

L. 809

For Release 3.00 p.m. on Thursday, January 25th, 1968

The Address of

Mr. Graham F. Towers

C.M.G., LL.D., D.C.L.

Chairman of the Board

at the

121st Annual Meeting

of

The Canada Life Assurance Company

January 25th, 1968

It is my pleasure to welcome you to the 121st Annual Meeting of The Canada Life Assurance Company. Your Secretary has read the financial statements and your President, A. H. Lemmon, will discuss their significance in more detail in a few moments. While the figures reveal the scope and growth of our business, they cannot by themselves tell the whole story of Canada Life's performance. Our reason for being, stated simply, is to provide a service to our policyholders. Obviously this requires that we have the financial resources necessary to meet our liabilities. But true service requires that we go far beyond meeting the strict legal requirements of our contract. It means that we deal with each and every policyholder's problems as individual ones. It means these problems are solved by people; quickly, fairly and with understanding. Thus I feel that the progress as shown in the figures in our Annual Report each year is truly a tribute to the members of this Company. You present here today, and your associates across the North American continent, in the United Kingdom and the Republic of Ireland are the unrecorded assets that provide the human service to our policyholders and make the Canada Life a living entity. On behalf of the Directors and policyholders I would like to express our heart-felt appreciation to all of you.

While there have been a number of important, even startling developments in the financial and economic fields of North America in recent years, I consider the most significant one to be the substantial rise in the cost of living during the last two years in both Canada and the United States. I think it is significant for two reasons. First, because it has had a painful effect on the budgets of many millions of families, and second, because it has brought discussion of inflation out of the realm of the academics right into everyone's daily life. No one can truthfully say that this surge in living costs was a completely unforeseen and unexpected development. In Canada for years past the welkin has rung with warnings and exhortations. On the one hand Government has urged business and labour to keep prices and costs down and to increase productivity. On the other, many members of the public have pointed out the inflationary potential of large increases in Government spending at a time of full employment of our resources. Throughout the period, the inflationary results of increases in wages in excess of increases in productivity have been pointed out almost ad nauseam. So far as tangible results are concerned, this verbal barrage seems to have been an exercise in futility, although it may have had some

educational effect. I do think that it is slowly coming to be realized that unless Governments give solid evidence of exercising restraint in their demands on our productive resources, there can be no stability in our economic affairs or confidence in the future. It is too early to say whether this public realization will lead to effective action in the near term and sounder Government policies in years to come. However, I do find grounds for hope in this respect in the widespread unpopularity of these increases in living costs, in the turmoil in bond markets, in high interest rates and in the plight of housing. These unhappy developments may well lead to the problem of inflation being taken much more seriously.

I think it is correct to say that no country has yet discovered a satisfactory way of maintaining high employment without inflation. This is neither the place nor the time to embark on a description of the many approaches which are being taken or discussed. One can only say that solutions must be found or the goal of continuing high employment cannot be achieved.

In discussing the thesis that we can and should accept inflation as a means of achieving high rates of output, the

Governor of the Bank of Canada in his last annual report expressed the opinion that this option is not really open to us. He said and I quote "It would soon become just as difficult to prevent price rises from exceeding a high target rate as it now is to prevent them from exceeding a low target rate. The same policies of restraint would come to be required. Nothing would be gained in employment or output; the difficult efforts to adjust to inflation would thus have been to no avail and our ability to grow steadily would be continuously threatened by the impairment of our international competitive position".

I think it is unfortunate that the thesis to which the Governor referred has received support over the years from various respectable sources. The late Professor Sumner Slichter of Harvard preached this doctrine in season and out. The Economic Council of Canada took somewhat the same line in its First Annual Review in 1964. But surely one lesson to be learned from the events of the last few years is that if one puts the seal of public approval on continuing erosion in the value of money, people will catch on to what is happening and will try to protect themselves in any way they can. They will shy away from fixed interest obligations or demand a much higher reward for accepting them. Continental Europe has

had experience along these lines and managed to survive. But I should hate to see the great capital markets of the United States and Canada struck by a similar blight. In thinking of the consequences the current plight of housing comes to mind, not to mention the financing problems of Corporations and all levels of Government.

Another evil of accepting a certain degree of inflation as inevitable and tolerable is that it tends to make Governments complacent. Why take politically unpopular measures to fight a rise in the general price level if a little inflation is part of the so-called "trade-off" against unemployment? Eventually, of course, steps have to be taken if only because substantially rising living costs are widely unpopular. But by that time the problem is more difficult to solve and all kinds of disruptions and distortions have occurred. Moreover, one can never in this modern world get back to the level of prices and the cost of living that prevailed in earlier years. So I believe that Governments should and must set their faces against any continuing rises in the general level of prices. They may not be one hundred percent successful. But, if they try hard, they should be able to do a pretty fair job and avoid the quite disastrous effects of destroying public confidence in the

value of money. If, on the other hand, Governments accept continuing inflation as inevitable, even to a limited degree - often defined as one and one-half or two percent per annum - they are defeated before they start.

It is not often that one finds widespread agreement in regard to any problem in the field of Economics. But there is certainly a growing body of informed opinion supporting the view that the demand for capital in Europe and North America during the next decade will be relatively very heavy and may well tend to exceed the volume of savings. Certainly Canada's needs for capital will be formidable. Because of the age distribution of our population, the percentage increase in the civilian labour force over the next ten years will be far greater than in any other industrial country. The same factor of age distribution will result in a large and rapid increase in the number of marriages. These developments call for the investment of vast amounts of capital to provide employment facilities for the labour force and housing for the new families. Surely it is obvious that Governments must do everything within their power to encourage savings on the one hand and to keep their use of public savings to the lowest practicable figure - in plain words - cut out non-essential

expenditures, drastically defined. Any other course of action promotes inflation, which is the greatest deterrent to saving that one can imagine. As I said earlier, the evil and disruptive effects of erosion in the value of the dollar and attempts to do more than our resources will permit are now plain to see.

I imagine that very few people have been able to read in full the report of the Royal Commission on Taxation - the Carter Report - or the many briefs and comments on the Report which have since appeared. Nevertheless, I commend to your attention the submission made to the Minister of Finance by The Canadian Life Insurance Association entitled "An Economic and Financial Appraisal of the Report". In view of the unanimity of opinion concerning a shortage of capital, the almost cavalier attitude of the Commission towards personal savings is at once both surprising and disturbing. But we must realize that the Report is not just a lengthy treatise on taxation but a socio-economic document with many of the value judgements not always stated explicitly. Myself, I find portions of the Report highly consumption-orientated, and with a definite bias against personal savings. What I would have considered as the virtues of personal savings - its stability through the business cycle and serving as the major source of residential financing - are treated as negatives.

Additionally, because personal savings are relatively small compared to business savings, the fact that these savings are the major source of external funds for business and government is ignored. But all Government borrowings, to be non-inflationary, must draw upon personal savings, directly or indirectly. In the last decade, while business savings have provided 80% of total business fixed capital, 20% - the margin if you wish - has been provided by the sale of new security issues to the public. While the Report admits that implementation of its recommendations would affect personal savings, and particularly contractual savings, in a very complex way, and in all probability reduce them, this result is regarded with equanimity. I believe that the Association's brief presents good reasons for thinking that the Report has badly underestimated how much its recommendations would reduce the level of savings in Canada and this at a time when our needs for capital are assuming ever greater importance.

In closing, lest I be labelled a prophet of doom, let me say that I believe that the North American economy - the nuts and bolts if you wish - is basically sound and exhibiting surprising strength. As a result the prospects for 1968, as measured by most broad economic indicators, are good. Not as robust as in the last five to six years, but still good. But real growth depends on the public's

confidence in their currency as a medium of exchange and store of value. While this confidence has been eroded in recent years, I do not believe that it has been destroyed. It can be restored if we will take appropriate action now to reaffirm that stability of the value of the dollar as one of our economic goals is on a par with any other goal.

AR53

For Release 3.00 p.m. on Thursday, January 25th, 1968

The Address of

Mr. A. Hazlett Lemmon

President

at the

121st Annual Meeting

of

File

The Canada Life Assurance Company

January 25th, 1968

Introduction

The year that has passed was unique in the true sense of the word. A spirit of national destiny was re-awakened in the Canadian people as they saw the miracle of Expo 67 bring the nations of the world to their doorstep. That great Exposition was a magnificent example of the blending of Anglo-Saxon and Gallic planning and flair with the diverse talents of the many races that make up the population of our vast country. At the same time problems arose that will require a combination of good judgment and imagination to solve as Canada moves into the Second Century of Confederation.

Throughout the world there were many areas of uneasiness and this stress and tension showed up in the headlines. However, at the same time there seemed to be a sincere wish on the part of the larger nations to keep local events from getting out of control. Because of its dominant position in world affairs, our great neighbour to the south has been involved in many areas of tension and strife and we owe that country our sympathy and support in trying to resolve these difficult problems.

During the year Governments continued to push into areas formerly served by free enterprise and inflation once more menaced the economies of most nations. Many people were confused and bewildered

when the old virtue of thrift was questioned on many sides. In this atmosphere Canada Life continued expanding and progressed, while helping more and more people. As a result I am pleased to report that your Company can demonstrate another fine year of service in 1967.

Taxation

Before proceeding to discuss the Company's annual statement, I would like to refer to the Report of the Royal Commission on Taxation, commonly known as the Carter Report, which was released in February, 1967. This Report recommends that Canadian policyholders and beneficiaries should be taxed in four different ways in connection with their life insurance policies. It suggests:

(1) that life insurance death benefits should be taxed as if they were capital gains

(2) that a portion of the interest income of the Company should be imputed to each policyholder and that he should pay a tax on that

(3) that a portion of the surplus earnings of the Company should be imputed to each participating policyholder and that he should pay a tax on that, as well as receiving a corresponding credit for any corporate tax which the Company paid on that amount

(4) that he should pay a tax on policy dividends with which he was credited.

The tax on life insurance proceeds payable by a policyholder's estate would defeat the primary objective of life insurance and impose a very untimely burden on a policyholder's widow and dependants. The taxes on imputed amounts which the policyholder could not receive in cash, and indeed in most cases has no claim to, would also require policyholders to pay tax at a time when they had no corresponding income out of which to pay it.

The life insurance companies in Canada have made every effort since the Report was released to protect the interests of Canadian policyholders -- and there are 11 million of them, almost half of which do not have enough income to attract income tax -- by pointing out to the Government and illustrating in detail the inequities which would result from the adoption of these tax proposals.

New Business

In determining the progress of a company we have to talk in terms of dollars and cents. While this gives an idea of size, it does not even begin to hint at the multitude of human interest stories that make up these amounts. For, at Canada Life, we deal with the means to improve and enrich the lives of thousands and thousands of people.

We are the means whereby an older person finds more than just a basic existence on government security plans. Through our services and through his own enterprise he finds a chance to travel and generally to enjoy his retirement years to the full. We are the means

whereby a family, whose father has been killed in an accident, can continue to live in its own home without financial fear. We are the means whereby a father who is very ill can be sure that there will be money coming in to maintain the family and keep the mortgage payments up-to-date. We are the means whereby some young person can afford a university education that will give him the background to make someday a great contribution to mankind. And we are also the means of reminding people of their needs and providing an exact picture of how their present resources measure up to their requirements. This valuable service is provided by a skilled and professional field organization.

In 1967, these dedicated members of Canada Life helped people attain a greater measure of financial security with over $802 million of new life insurance and annuities.

Chart No. 1 on the back of this folder indicates that this total includes almost $459 million of individual new business, and $344 million of group. We were a pioneer in the field of employer - employee benefit plans and our group insurance total reflects this experience.

Agency Organization

In our international organization one of the stars is Dublin Branch of our British Isles Division. This Branch, under the management of Harry Ellis, led the entire Company in 1967 on a new business credit basis for ordinary life insurance and annuities. In 1964 Dublin was the first British Isles Division Branch ever to lead the entire Company

and in 1965 they retained this place.

Our Vancouver Branch, under the management of A. L. Anthony, C.L.U. and N. A. Daly, C.L.U. was runner-up and the leading Canadian Branch. They led the Company in 1966 and several times earlier.

Detroit Branch, under the management of A. G. Billesdon has led all branches and general agencies in the United States.

Dublin Branch also led the British Isles Division in New Premium Income, an important measurement of progress.

Vancouver Branch was the leading Branch in the Company when Group is included in the total.

The North American Trophy of the President's Award was won by A. G. Billesdon, Manager of Detroit Branch. It is noteworthy that this vigorous American Branch has earned this Trophy on no less than five occasions -- a record for our Company.

The President's Award Trophy for the British Isles Division was won by G. T. Miller, Manager of Bristol Branch. Mr. Miller also won this Award in 1963.

Dayton Branch, under W. R. Schonsheck, was awarded the 1967 Spring Trophy and D. H. Anderson's Central Toronto earned the 1967 Grand Challenge Trophy. Vancouver took the Volume leadership in both Campaigns.

Business in Force

As most of you will recall, at the end of November sterling was devalued from $2.80 in U.S. funds to $2.40. Up to this point we have carried sterling in our statement at $2.80 but, in view of this change, we decided to reduce its value to $2.60, which is its present approximate value in Canadian dollars in our Balance Sheet and for all year-end figures, including Business in Force. Since the greater part of the year had elapsed before the change we have not altered the figures in New Business or Revenue for the year. Reference to this change is made in a footnote to the Balance Sheet.

In spite of this change, Business in Force increased to a total of more than $7.9 billion, including $6.9 billion Life insurance and $992 million Annuities. This total excludes business that we reinsured with other companies, and represents an increase of $572 million over the preceding year. The growth of Business in Force over the past years is shown in Chart No. 2.

We must never let all this talk of billions of dollars obscure the fact that these amounts are really made up of the savings of thousands of people who provide for their dependants or their retirement. May I quote from a letter that we received from a lady in a small city in California: "I received my annuity of $338.96 from your Company and I feel I should write you a note of appreciation and thanks. This

annuity represents to me the one and only "extra" in my financial affairs. My income is small and I look forward to each August when the annuity is due. This is what this year's annuity is doing for me. It paid a sizable dentist bill, bought a typewriter for my son and his wife, bought a coat for each of two grandchildren, paid fire insurance on my furniture, paid for re-upholstering my favourite easy chair, and for a season's ticket for a travel film series at Stanford, all of which brought me much satisfaction. With my thanks again for the work of your fine Company, I am, gratefully yours."

Income and Investment Earnings

This year we have made a slight change in the form of our Revenue Statement. As I said before, the Royal Commission on Taxation has proposed that policyholders should be taxed on the "policy dividends" that are credited to them on participating life insurance policies. This recommendation apparently was based on the assumption that a policy dividend is similar to a dividend paid to a shareholder from the profits of a corporation.

A policy dividend is, in fact, quite different -- it is a method of determining the fair premium for each policyholder from year to year.

Life insurance guarantees extend over long periods of time and premium rates must be based on assumptions of the trend of mortality, expense and interest rates for many years ahead. In mutual insurance,

the premium stated in the policy is for an amount somewhat higher than it is anticipated will be necessary in the future. The actual premium required to be paid each year will vary with actual experience.

The difference between the premium stated in the policy and the actual premium paid in any year has been historically called a "dividend" -- a word that has led to a misunderstanding of the true nature of these premium reductions.

This mutual method has provided great security to policyholders against the hazards of making guarantees extending over a whole lifetime. It should not be discouraged by an unrealistic tax on the part of the total premium which is not required to be paid each year.

In an attempt to make our Annual Statement more descriptive in this matter we have this year used the words "premium reductions" instead of "dividends", and their total is shown as a deduction from gross premiums instead of including it with payments to policyholders, as in previous statements.

With this adjustment, our total income for the year was $183,939,000 -- an increase of $10,892,000 over 1966, calculated on the same basis. Chart No. 3 shows that there is included in this figure net new premium income of $29.6 million -- an increase of $1.5 million over 1966. This increase, which is entirely in the Individual Insurance and the Annuity field , is a real tribute to our Field Force in meeting the

competition, not only of other life companies but of other savings institutions.

Chart No. 4 shows the net rate of interest earned on our assets from 1947 to 1967. In 1967 the net rate earned was 5.81%. This rate is a composite one representing rates earned on different types of assets. With present high money rates it is not difficult to invest in fixed interest obligations at rates substantially in excess of our average net earned rate of interest. It should be remembered, however, that our assets contain many investments such as common stocks and property where the Company may sacrifice an immediate high return in order to obtain higher income in the future. Our rate, therefore, is an amalgam consisting of the rate earned on investments made in the past when rates were substantially lower, rates earned on assets invested at substantially higher rates than our average net rate, and a good percentage of investments where the immediate return is low but there is good expectation of future income and capital growth.

New money in 1967 was invested at 6.75% which is one of the highest new money rates the Company has seen in many years and compares with the previous year's new money rate of 6.57%.

1967 was a difficult year in North American capital markets. While some yields fell briefly at the beginning of the year, as the year progressed yields rose to levels that substantially exceeded the very high

levels reached during the latter part of 1966. The demands on the capital markets were of such a magnitude that it became impossible for the existing volume of savings to cope with capital demand. As a result, in some areas of the economy, such as the housing area, not enough capital was available to meet a pressing need.

Coupled with the strong demand for capital, an inflationary psychology arose during the year which made some investors nervous about committing money for long periods. If present trends are to be ameliorated it is necessary for governments to reduce their demands on the capital market so that a better balance is achieved, allowing the private sector of the economy to satisfy its legitimate capital needs. Not only should governments reduce their demands upon private savings, but there is a crying need for more encouragement of the citizen who is willing to sacrifice current consumption and save. A society can only grow at a fast rate if there is access to a growing pool of savings. In our free society a good part of these savings should come from the actions of citizens who are willing to save in order to meet future family needs.

In the United Kingdom money markets were upset by fears of a possible devaluation of sterling. While the demand for private capital was not as great as in some years, the possibility of devaluation upset markets and when this became a reality, last November, the Bank Rate was raised to 8% and the year closed with interest rates at high levels.

Benefit Payments

Chart No. 5 shows that total death and disability benefit payments reached $40.7 million -- an increase of over $4 million from last year. Endowment and cash values disbursed were slightly less than in 1966 due to lower cash-out of existing pension plans arising out of the introduction of the Canada Pension Plan and the Quebec Pension Plan.

Mortality

The overall mortality experience of the Company has been favourable again in 1967 in spite of the continuing uptrend in deaths from diseases of the heart and the circulatory system. Once again heart disease is by far the greatest cause of death among policyholders. We can draw some encouragement from the recent developments in heart transplants by Dr. Barnard and others, but must recognize that these procedures can have little effect on the longevity of the general public for many years at least.

Greater attention to the hazards of smoke and smog could have rapid and beneficial results. Industries should continue to seek means of reducing their contribution to air pollution, and manufacturers of vehicles, and transportation companies, must build in devices to decrease the discharge of poisonous gases. Governments should be more concerned with public welfare in spite of the large tax revenue produced by cigarettes, and the tobacco companies should press on with their research to reduce the harmful effects that are related to their products.

Over the year-end, some communities used stringent means to check up on drinking drivers. The results in many cases were well worthwhile, reducing the number of accidents and fatalities. Many people seem unable to exercise self-control and until they do, enlightened law enforcement seems to be the most effective way of cutting down on traffic accidents which have been a major cause of death among our policyholders; in fact, the greatest cause among those under 40 years of age.

Assets

At the end of the year our assets totalled $1,127,832,000 -- an increase of $51,750,000 during the year. As I said before, we revalued our sterling assets to more closely reflect their value in Canadian dollars and these are now shown at $2.60 to the pound. As the footnote to the Balance Sheet shows, this had the effect of reducing both our Assets and Liabilities by approximately $10,400,000 but did not have any significant effect on surplus. During the year the Company continued its investment policy of investing in bonds, mortgages and common stocks, and placed increasing emphasis on real estate and mortgage investments where the Company obtains some participation in the future earnings of projects. With current inflationary trends we are fully aware of the need to protect the real value of our assets and our investment policy is formulated with this in mind. The present high level of interest rates contain, in themselves,

however, a substantial degree of inflation protection. For example, at a compound rate of 8% money doubles itself within 9 years. Similar performances are frequently not obtained by many so-called "inflation hedge" investments.

It is natural that many people should complain about the present high level of interest rates. I have every sympathy for them. The income required to qualify for a house mortgage is now much larger than it has been in the past. Not only have interest rates and property taxes increased but the cost of a house has advanced rapidly in recent years. Higher interest rates are, of course, the product of inflation. Reduce the inflationary trends in the economy and interest rates will tend to adjust accordingly.

A feature during the year was the rapid growth of our segregated annuity funds in Canada. These funds are used to offer individual and group policyholders plans where results are based upon the investment experience of a particular group of assets. These funds increased substantially during the year and now stand at $20,364,000.

Toward the end of last year we introduced a variable life insurance policy in the British Isles Division with cash and maturity benefits reflecting the experience of a separate investment fund. This has proved to be very popular and we are now planning for similar policies suited to the market and insurance laws of Canada and the United States.

Liabilities and Surplus

Once more, favourable mortality experience and investment earnings have produced a very satisfactory level of earnings for the Company in 1967. In addition to valuing both our assets and liabilities on a very conservative basis, we have been able to add $5,641,000 to unassigned surplus and the general contingency reserve. They now total 6.8% of the Company's assets. We have also made provision for lower participating premiums for 1968 in Canada and the British Isles Division by an increase in the rate of premium reductions, which is the seventh successive yearly increase in those countries.

Tribute to the Staff

The purpose and objective of this mutual company is to guarantee security through comprehensive and efficient insurance services to its policyholders.

This can be accomplished only through people. It is personified by the presence here today of our Branch Managers and General Agents from the United States who all this week have been studying ways and means of pursuing this objective even more intensely.

To them and their associates in the field in Canada, the United States, the United Kingdom and the Republic of Ireland and to all the staff in our Home Office and our Chief Office for the British Isles Division, I express the thanks and appreciation of the Directors for their loyalty and devotion to the interests of our policyholders.

1

NEW BUSINESS PLACED BY AGENCY ORGANIZATION

(Excluding reinsurance received)

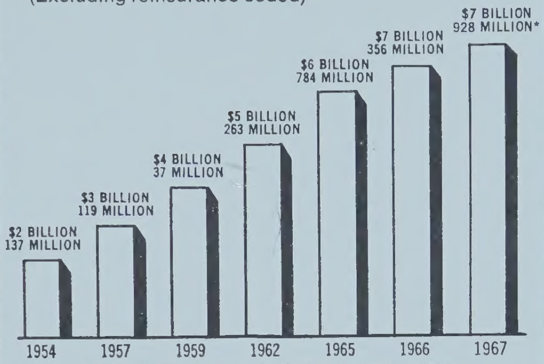
	1967 (in millions)	1966 (in millions)
Individual	$458.9	$452.6
Group	344.0	329.5
Total	$802.9	$782.1

Insurance and annuities combined

2

LIFE INSURANCE AND ANNUITIES IN FORCE

(Excluding reinsurance ceded)



*Life insurance—$6 billion, 936 million
Annuities — $992 million

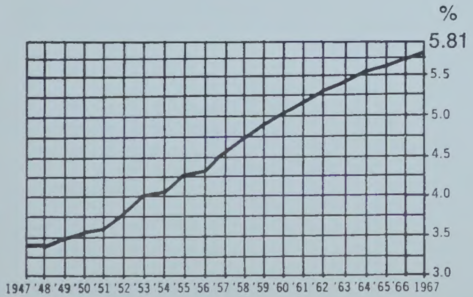
3

NET NEW PREMIUM INCOME

	1967 (in millions)	1966 (in millions)
Individual Life	$13.5	$12.7
Group Life	1.1	1.6
Annuities	14.4	12.0
Health Insurance Increases	.6	1.8
Total	$29.6	$28.1

4

NET RATE OF INTEREST EARNED 1947-1967



5

PAYMENTS UNDER POLICY CONTRACTS

	1967 (in millions)	1966 (in millions)
Death and Disability Benefits	$40.7	$36.4
Endowments and Cash Values	38.0	39.2
Annuities	13.0	11.9
Total	$91.7	$87.5

6

DIVERSIFICATION OF INVESTED ASSETS

	%
Government Bonds	11.8
Municipal Bonds	5.2
Public Utility Bonds	3.6
Other Corporation Bonds	17.7
Preferred and Common Stocks	8.5
Mortgage Loans	41.6
Properties Held for Investment	3.1
Policy Loans	7.4
Miscellaneous (Office Premises, Cash etc.)	1.1
	100.0